



**MINUTES  
PUBLIC MEETING  
Friday, May 19, 2006  
8:00 AM  
State House Room 233**

**I. Call to Order**

The meeting was called to order by Jeff Heinzmann at 8:01 AM.

**II. Roll Call**

Ryan Kitchell, Jeff Heinzmann, Tim Berry, Judy Rhodes, and Tony Armstrong were present. A quorum was declared with all Committee members present.

**III. Reading of the Minutes**

Tony Armstrong moved to approve the submitted minutes for the February 17, 2006 Public Meeting. Judy Rhodes seconded the motion and the minutes were approved unanimously.

**IV. Secretary's Report**

Jeff. Heinzmann stated that although there are current discussions with a handful of local entities there were no official signed documents to report.

Mr. Heinzmann reported that the Investment Management Agreement, Administrative Funding Agreement, Custody Agreement, and Investment Sub advisory Agreement in relation to the Indiana Stable Value Fund will expire August 31, 2006. Mr. Heinzmann suggested that these pieces should be priced out and renegotiated with the current Managers. Capital Cities can handle the research and negotiations and compile a report with their recommendations that can be presented to the Committee sometime this summer in a separate meeting.

Ryan Kitchell inquired about the Indiana Deferred Compensation Plan's obligation to provide a competitive bidding process. Jeff Heinzmann reported that the statutory requirement of competitive bidding had been satisfied because the ISVF that had been created for the plan by the Committee in 2001-2002 was the result of a competitive bidding process. Another competitive bid would be required if the Committee decided to change to a new product, but not for a renegotiation and renewal of the same product – much like when the Committee decides to replace a mutual fund option. This was confirmed by Mary Beth Braitman of Ice Miller, legal counsel to the Committee.

Mr. Heinzmann volunteered to work with Capital Cities in this process. Ryan Kitchell made a motion to have Jeff Heinzmann and Capital Cities prepare report for the Committee to report on the reasonableness of the existing fees within the fund and for the extension/bidding of contracts for Investment Management Agreement, Administrative Funding Agreement, Custody Agreement, and Investment Sub advisory Agreement. Tim Berry seconded the motion and the motion passed unanimously.

**V. Administrator's Report**

Auditor of State, Connie Nass reported to the Committee that the "Greatest Spectacle in Saving" was a success. Auditor Nass thanked Great West, Jeff Heinzmann, and Lottie Hooyer for all their diligent work in organizing the event. All but three of the Funds within the Hoosier S.T.A.R.T. plan sent a representative to the event. The Great West staff spent the event constantly answering questions and providing assistance and educational materials to attendees.

Auditor Nass stated that the result of the event has been seen in increased numbers in enrollment and website usage. Auditor Nass also thanked Matt Steward of the Indiana Economic Development Corporation's Motor Sports Initiative for assisting Hoosier S.T.A.R.T. in arranging for Andretti Green Racing to provide an IRL show car for the day of the event, helping draw more state employees to the "Greatest Spectacle in Saving".

Tim Berry asked what the present number of participants is. Jeff Heinzmann stated that the number as of the end of the 1<sup>st</sup> quarter was 29,678.

**VI. Third Party Administrator's Report**

Bill L'Huillier of Great West Retirement Services began his report by noting that new ideas like Greatest Spectacle in Saving have been instrumental in rejuvenating the energy of the Representatives in the field. During the event, the Representatives were engaged with state employees the entire 2.5 hours that the staff was there. The number of attendees was estimated at 500.

Mr. L'Huillier stated that traditionally there has been a low level of response when GW staff has approached agencies on the government campus. Since the GS\$ enrollments for the month of May elevated to 195, and there has been a significant increase in requests for changes in allocations, contributions, and personal identification numbers.

Other initiatives include payroll messages in both the A & B cycles, regular article contributions to the "Interchange", the State's newsletter, and regularly scheduled office hours in the Conference Center. GW also has reserved three display boards in the tunnel between the Government Center South and the State House. A theme of the power of "15" (stemming from the \$15 match) will be used to draw attention to the money state employees earn but do not claim by not participating.

Mr. L'Huillier reported that Adams County is in a pending status, but will be bringing to Hoosier S.T.A.R.T. about 150 new participants. North Webster is also pending and will be bringing 10 employees to the plan.

## **VII. Fund Reports**

### **A. Indiana Stable Value Fund**

John Finnegan of Delaware Investments began his presentation by announcing to the Committee that this meeting would be his final as he has accepted a new position. Mr. Finnegan introduced Gregg E. Erdman who will be the plan's new Representative from Delaware. Mr. Finnegan provided a history of Mr. Erdman's experience with Delaware and assured the Committee that the transition would be seamless.

Mr. Finnegan began his summary and provided a report for the 1<sup>st</sup> quarter performance. The book value of the fund dropped from \$378.4 million to \$377.4 million, impacting the cash buffer. As in the previous quarter, the percentage was 9.8%, putting it on the high end of the 5-10% target.

The pending merger between Lincoln and Jefferson Pilot closed on April 3, 2006. This was an insurance company transaction and had no measurable impact of the investment side of Delaware.

Mr. Finnegan reported that since the relationship inception in September of 2002, the portfolio is closing in on \$30 million in gains. Despite nearly 2 years of volatile returns and rising interest rates, the portfolio has out performed the Leman Aggregate Bond Index by 45 bps for the quarter, 74 bps for one year, 102 bps for two years, 157 bps for 3 years, and 165 bps since inception.

The defensive duration position contributed positively to excess return as interest rates rose. The Stable Value fund has been very stable year to year in performance, insulating participants from volatility within the market. Delaware will continue to maintain a defensive posture.

### **B. Wells Fargo Advantage Capital Growth Fund**

Frank Esposito, Product Specialist, of Wells Fargo Fundamental Growth Equity Team, provided an overview of the Wells Fargo Advantage Capital Growth Fund management team and its management style. He introduced Mr. Tom Pence, Managing Director and Senior Portfolio Manager of Wells Fargo Fundamental Growth Equity Team. Mr. Pence gave an overview of the team changes. The Senior Portfolio Manager, Erik Voss recently left the firm to pursue other interests, but Mr. Mike Harris, a long-time assistant portfolio manager and analyst for the product, will now be the Co-Portfolio Manager with Mr. Pence. There also have been two analysts hired to work on the product since Mr. Voss' departure.

Mr. Pence gave an overview of the fund's investment philosophy, providing details of the investment process. Mr. Pence stated that compared to other growth funds his team tries through a detailed research strategy described as "surrounding the company" through

intensive grass roots research to develop unique insights by interviewing other companies the target company does business with and to analyze the balance sheet of the company that they invest in order to understand future earnings.

### **VIII. Investment Consultant's Report**

Janet Sweet of Capital Cities reported to the Committee the market overview for the 1<sup>st</sup> quarter. Small cap outpaced large and mid cap styles. Growth beat value within the small cap and the mid cap markets. International equities solidly beat domestic large cap stocks with the MSCI EAFE beating the S&P 500. Most fixed income styles declined in the quarter as the Fed tightened rates twice by a total of 50 basis points. The Treasury sector performed most poorly, followed by the corporate sector. The mortgage and agency sectors provided slightly higher relative returns, but were still negative for the quarter. High yield fixed income handily outperformed all other fixed income sectors returning 2.89% for the quarter.

Wells Fargo has been placed on the watch list due to the departure of Mr. Voss as manager. Capital Cities is comfortable with the new management arrangement as Mike Harris is a long-time assistant portfolio manager and analyst for the product, but will continue to monitor the fund's performance over the next four to six quarters.

Alliance Bernstein Growth and Income remains on the watch list. The fund has lagged its peer group and the benchmark over various times periods. Ms. Sweet gave a historical account of the fund's performance. Just over 10% of the plan's assets are in Alliance Bernstein, with 10,478 participants in the fund. Philosophy has not changed and there has been no change in managers. The philosophy is out of style within the market.

Judy Rhodes asked what the cumulative out flow has been in the past year, how many participants on their own were moving out of the fund. Ms. Sweet stated that the dollar figure appears larger than previous quarter but no exact number of participants moving out. Jeff Heinzmann stated that typically the participant stays in the funds originally selected at the time of enrollment. Tim Berry asked if there were more participants logging onto the website and what kind of activity that would indicate. Mr. Heinzmann stated that most of the participants who log on for monitoring tools and there is a minor amount of movement into the new funds.

Mr. Heinzmann asked Ms. Sweet if the Alliance Bernstein fund still met the appropriate large cap value slot within the plan's portfolio. Ms. Sweet stated that the fund is still value oriented and all in all a standard large cap value fund.

### **IX. Counsel's Report**

Mr. Heinzmann and Ms. Hooyer are working with the local entities renewing the Volume Submitter documents.

### **X. Old Business**

There being no old business or new business before the Committee the meeting was adjourned by consensus at 9:05 AM.